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Implementation of the UNCDF cost recovery policy

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Summary

UNCDF is fully recovering its costs, in accordance with the cost recovery policy adopted by the Executive Board at its first regular session 2008. It has applied the general management support rate of 7 per cent used by UNDP and other United Nations organizations to all third-party contributions. The newly approved UNDP cost categories, which UNCDF would like to adopt, will increase transparency and accountability, including by showing the volume of regular resources, if any, necessary to finance support costs that are not covered by the UNCDF allocation from the biennial support budget of UNDP.

Elements of a decision

The Executive Board may wish to recommend that UNCDF adopt the cost classification categories that it approved for UNDP in decision 2009/22.

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I. Background

1. In its decision 2008/21, the Executive Board requested the management of the United Nations Capital Development Fund (UNCDF) to report on the implementation of the cost recovery policy, including the effect of the applied rates on regular and other resources, as well as the use and allocation of indirect costs recovered, for consideration at the second regular session 2009. The presentation of that report was postponed to the first regular session 2010 to coincide with the presentation of the UNDP biennial support budget, 2010-2011, particularly as it relates to increased accountability and transparency in the way costs are classified. At the second regular session 2009 of the Board, the Executive Secretary presented the UNCDF approach to cost-recovery – an approach based on three principles: (a) alignment with UNDP cost recovery and harmonization with the cost recovery principles of the United Nations Development Group; (b) proportional burden-sharing of management costs from regular and extra-budgetary resources; and (c) strategic allocation of extra-budgetary resources to ensure effective programme delivery.

II. Implementation of the UNCDF cost recovery policy

A. Cost recovery policy

2. Cost recovery income in UNCDF is generated from two sources: (a) donor contributions to other resources (non-core funds); and (b) technical advisory services to United Nations organizations and other institutions. Since the UNCDF cost recovery policy was adopted by the Executive Board at its first regular session 2008, UNCDF has applied the general management support rate of 7 per cent used by UNDP and other United Nations organizations, to all third-party contributions. Technical advisory services are charged at full cost.

3. The actual average general management support rate for contributions received to UNCDF other resources in 2006-2007 stood at 6.7 per cent (contributions to other resources for this period were approximately $21 million). In 2008, the general management support rate stood at 7 per cent, with contributions of $26.6 million. Contributions of $16.0 million are expected in 2009, for a projected total of 42.6 million dollars for 2008-2009. Actual general management support in 2008 was $1.86 million, and projections for 2008-2009 amount to $2.98 million.

UNCDF Programme expenditures and biennial support budget (in millions of dollars)

Category	Regular resource	Other resources	Total
Income, 2006-2007	29,458	21,021	50,479
Programme expenditures, 2006-2007	36,219	18,215	54,434
General management support, 2006-2007 (6.7 per cent of other resources)*		1,400	1,400
Support costs, 2006-2007**	9,593	361	9,954
Income, 2008-2009* **	46,000	42,600	88,600
Programme expenditures, 2008-2009****	41,000	29,000	70,000
General management support, 2008-2009 (7 per cent of other resources)		2,982	2,982
Support costs, 2008-2009**	9,500	2,050	11,550

**$410,000 of the $1,400,000 in general management support was credited in 2008.*

***Support costs for regular resources represent an allocation of $5 million annually from the UNDP biennial support budget. In addition, UNCDF earmarks 5 per cent of the regular resources allocated to country programmes to a programme support budget that covers field- and regional-level costs.*

****Estimate, based on actual figures for 2008 and donor commitments for 2009.*

*****Estimate based on actual expenditure figures for 2008, projections for 2009 based on 9-month expenditure trend.*

4. From the extra-budgetary income generated by the application of the 7 per cent general management support rate, UNCDF plans to use $2.05 million in 2008-2009 to strengthen its country-level presence, additional operational support in the three regional offices in Africa and Asia, and additional management support at headquarters. Such activities are in keeping with the UNCDF expansion, during the past four years, from 23 to 38 least developed countries. The extrabudgetary income also partly covers the reimbursable services obtained from UNDP at headquarters under various service-level agreements. The $932,000 balance will be allocated to allow growth in the UNCDF extrabudgetary balances.

B. Cost classification

5. Against this background, UNCDF proposes that it adopt the cost classification categories approved for UNDP by the Executive Board in decision 2009/22: (a) development, and (b) management. This will increase transparency and accountability in the way costs are reported, including by showing the volume of regular resources, if any, needed to finance support costs that are not covered by the UNDP biennial support budget allocation.